

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L ALMATY 001920

SIPDIS

DEPT FOR EUR/CACEN (JMUDGE)

E.O. 12958: DECL: 05/11/2005

TAGS: [PGOV](#) [ECON](#) [EPET](#) [KZ](#) [ECONOMIC](#)

SUBJECT: KAZAKHSTAN: AMBASSADOR'S TRIP TO ATYRAU OBLAST

Classified By: Ambassador John Ordway, reasons 1.4 (b) and (d)

11. (C) Summary: Ambassador Ordway met with a wide-range of civic groups, businessmen, local officials, and foreign investors during his March 13-16 trip to Kazakhstan's oil-rich Atyrau Oblast. The booming region faces skilled labor shortages while a large rural population idles in villages. Relations between investors and local officials are generally good, though real tensions exist over work permits, environmental fines, and corruption. NGOs, on the other hand, charge environmental harm by the region's largest investor, the TengizChevroil (TCO) field. They are also skeptical about the efficacy of TCO-sponsored social programs. End Summary.

Feast among Famine

12. (U) Hugging the shores of the north Caspian, Atyrau's salt-laden soil hold about 58% of Kazakhstan's recoverable oil reserves. The overwhelmingly ethnic Kazakh region pumps about 20% into the central budget but accounts for a mere 3% of Kazakhstan's total population. Within 10 years, according to Atyrau Oblast Akim (governor) Aslan Musin, the region plans to produce 70 million tons of oil annually thanks to two main projects, the Chevron-Texaco operated TengizChevroil(TCO) field and AGIP-KCO's off-shore Kashagan bloc. Musin reported that the average wage in the oil sector had hit \$1,000 a month and that rents equaled those in Almaty. The City Akim, Manas Tasybayev, boasted that 90,000 square meters of new construction had gone up in 2004, almost double the best Soviet-era figure of 55,000.

3 (SBU) Nevertheless, problems exist. Musin said the region had been "a backwater" that still faced "many unsolved problems despite the oil wealth." He ticked off the main culprits: mono-economy; rural poverty; skilled labor shortage; bad roads; lack of potable water; poor schools and hospitals. Musin added said 65% of the population did not have access to clean piped water. Tasybayev added that the average family had five children, with the average between three and four. (Comment: Both Musin and Tasybayev are viewed by some local residents as outsiders, appointed from neighboring Aktyubinsk province in 2002. End Comment).

Skilled Labor Shortage

14. (SBU) All the Ambassador's interlocutors, both state officials and private businessmen, complained of a growing shortage of skilled labor. Musin said that the region had "already exhausted its Soviet (skilled) labor reserves." He griped that three training centers set up by AGIP and TCO were "insufficient" and said that 40,000 workers would be needed in the oil sector in the next ten years. He hoped that as many as possible would be Kazakhstani.

5.(C) AGIP-KCO District Director Mario Becherucci projected that 12,000 workers alone would be needed at the peak of his project construction. He complained of a shortage of skilled welders, and said that "it wasn't simply a matter, as the local authorities believed, of training local people." Becherucci added that some of the techniques and materials demanded advanced skills, and, most importantly, experience. West Pearson, the head of the Parson Flour Daniel's office said local vocational schools were "horrible". His company planned to open up a training center for welders and pipe fitters.

State-Investor relations: Okay, far from perfect

6.(SBU) Local authorities were upbeat over their relations with foreign investors. Musin praised TCO and called relations with them "outstanding." He also lauded their social programs (Note: The company has spent \$86 million since operations began in 1993. The Akim, not TCO, determines priorities. End Note). Musin told the Ambassador that he wanted to maximize Kazakhstani work participation, which already is 80% for TCO, and increase the number of

Kazakhstani sub-contractors.

7.(C) At a coffee with the Ambassador, U.S. service company

representatives were less cheery about relations with the authorities. As one oilman quipped, "it's the geology that keeps us here." All cited renewing and getting work permits as a serious problem. The head of the local KBR office, Micheal Roach, said that local authorities had told them to leave two years ago, then sniffed around for a \$20,000 bribe. William Borst, project manager for Parker Drilling, laughing added that "it was difficult to deal with all the people who want bribes."

18. (C) At a later meeting, TCO General Manager of Production David Madsen said TCO was under "intense regulatory pressure" and was being hit up to provide discounted crude to a local, state-owned refinery. He also complained that the authorities had refused exit permission for 400 oil-laden rail cars for two months this winter during one dispute. That clearly violates TCO's right of free export to world markets, he noted. Local authorities also use environmental fines to raise revenues and levied TCO with a \$70 million dollar charge in 2003. Ultimately, they settled for \$7 million, which came of the GOK's royalties under the TCO foundation agreement.

TCO in NGO crosshairs

18. (SBU) A roundtable of NGOs peppered the Ambassador regarding the latest round of investigations against NGOS. They also charged TCO with polluting the environment and claimed that TCO project money was squandered. The Ambassador voiced his dissatisfaction with the latest round of inspections against NGOS. He clarified the non-political, technical nature of U.S. support to the third sector and said the had brought up the issue with the Foreign Ministry. Most at the meeting appeared heartened by his support.

19. (C) The NGOs also charged that TCO was emitting tens of thousands of tons of emissions into the air, above and beyond allowed limits, while stockpiling sulfur. One complained that the region "was in a gas chamber." Others questioned the efficacy of TCO-sponsored social programs and suggested creating a monitoring mechanism. The Ambassador, who visited the TCO Tengiz facility, replied that emissions were being reduced every year and would decrease even more once sour gas reinjection commenced. Regarding monitoring, he pointed out that this was an issue between TCO and the Akim. (Comment: All the companies, including TCO, worried about the efficacy of their programs and worked to prevent side-deals and looting by local authorities. End Comment)

110. (C) Comment: Long abandoned by Soviet central planners, Atyrau is still trying to come to terms with the massive influx of foreign direct investment. Western oil companies create real job opportunities and provide training, but cannot alone solve endemic issues such as rural poverty. Despite backwardness, the region seems to be handling the inflow of oil dollars fairly well. Local authorities spoke honestly with the Ambassador about the regions shortcomings as well as its achievements. People are working, the main streets are paved, and there is a noted absence of squalor and tawdriness normally associated with boom towns. End Comment.

ORDWAY

NNNN